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WHERE AND HOW RUSSIA IS TO GET HER NEXT LOAN.

BY YVES GUYOT.

I.

THERE has been quite a discussion going on over the question of contraband of war, and the whole matter remains very confused and obscure. The fact is that the most efficacious of all kinds of contraband of war is unquestionably gold, for with money all the rest can be obtained. But Russia, which has shown such a disposition to pronounce everything contraband, has displayed no desire to embrace in her anathemas things financial.

Scarcely had the present war broken out when Russia placed at Paris a loan of over \$154,000,000. The Russian Government did not begin by informing the French Government of its intention. It first opened up negotiations with bankers and other financiering institutions, and, when all was concluded, then the French Minister of Finance was told of the operation. But he had no ground for complaint. It is not the French Government which has lent Russia money. French capitalists, great and small, find it to their advantage to invest their funds in Russian bonds, quite without any official pressure from the French Government.

It was not in order to be agreeable to Russia that, about 1887, Bismarck boycotted Russian securities in Berlin. And yet, by so doing, he rendered the Russian Government a service for which it cannot be too thankful. He forced Russia to seek elsewhere for future loans. Baron von Morhenheim, then the Russian Ambassador to Paris, easily proved to his government that there was but one centre where it could find what was needed, and that this centre was Paris.

It is universally known that France is a great storehouse for money. It has long had solid fortunes. The statistics concerning

direct taxation show eight and a half million property-holders. If we take four as the average size of each French family, we find that 34 million French people have real estate, in great or small quantities, directly or indirectly, out of the whole 39 millions of inhabitants, or 872 persons for every 1000.

Perhaps there is some exaggeration in the generalization that all Frenchmen are economical. But it is certain that the peasant likes to hoard up, the domestic puts by and the working-man is often a wage-earner in the city and a landowner in the country; that, in cities like Lyons and Lille, there is a considerable mass of accumulated wealth. It was declared recently that a certain citizen of Lyons, who had an income of 800,000 francs and had spent in one year 30,000 francs, or 6,000 more than the interest at 3 per cent. on his income, considered himself "foolishly reckless!"

This Lyonese Harpagon simply represented the exaggeration of the spirit of capitalization. But it must be admitted that the tendency to save, when carried to excess, is harmful. The small French capitalist always wishes to make "sure investments." This is his ambition; and yet he sometimes lets his imagination run away with his judgment and invests in schemes of a lottery nature, like that of Panama. Suez had enriched certain persons, and the example was cited in favor of the new venture. So, many small capitalists rushed into the enterprise, and disaster overtook them. This crash coincided with the appearance on the Paris market of the Russian bonds. The Panama disaster turned people with money to invest towards State securities and Russian bonds were benefited by this state of public opinion.

The banks that had the placing of the loan got enormous commissions, and it was thus possible for them to influence opinion, which was not a difficult task, for the public was only too willing to do what was wanted of them. When the Emperor Alexander, father of the present Czar, listened to the French national air—the "Marseillaise" of the Revolution—during Admiral Gervais's visit in 1890, his act was considered by shrewd observers as a first-class advertisement of Russian bonds. The imagination of countless Frenchmen was heated by really childish fancies. The high-sounding word "Alliance" was given to what was in fact only a prosaic military convention, whose purpose was to determine the position and number of troops which

Russia should have on her western frontier. Then the Czar sent Admiral Avellane with his fleet to Toulon. Thereupon, some of my fellow countrymen, and fellow countrywomen too, I should add, seemed to rise to the seventh heaven of delight. They imagined that it was things of this sort which were going to decide the hard-headed Germans to hand us back Alsace and Lorraine. Two more loans in 1894, however, were the only practical results of all these hurraing demonstrations,—one of 167 and a half million of rubles, and another, in the same year, of 147 millions. Barnum himself would have envied advertisers of this calibre, and advertisements of this sort.

Then there was the small French capitalist who did all he could to render the comedy a greater success. French State bonds were very high, and the interest very low, and conversions were always probable. Russia had immense unexploited wealth; she had always paid her coupons; the price of her bonds might rise. Here, then, is a good investment, which is less risky than those of an industrial nature. This is the way that the small French capitalist looked at the matter, and he forthwith handed over his savings to the houses and bankers who had Russian interests in charge, and who had quite other and very decided reasons for wishing to handle these savings, and convert them into Russian bonds. The result of all this has been that, up to the present moment, France has taken up some eight billions of francs' worth of Russian State securities. This glance at what has happened in the past will help the reader to guess what is likely to happen in the near future.

II.

When the present war broke out, the vast majority of Frenchmen were astounded. The diplomats of most nations had shown but little perspicacity in not foreseeing this eventuality. It was evident, however, that Japan could not suffer indefinitely the dilatory conduct of the Russian Government. That the generally poorly informed "man in the street" should believe that "little Japan" would go on yielding to "big Russia,"—that can be understood. But that men whose business it was to know the resources of the two belligerents should also have held this same opinion,—this is incomprehensible. So, when the cloud burst, France was in consternation, and on February 10th, there was a veritable panic on the Paris Stock Exchange.

It is an old saying in the money-market that the fall in prices reaches the lowest point at the first cannon-shot. But the holders of Russian securities found comfort in repeating to themselves, that the destruction of a part of the Russian fleet was due simply to a surprise; that even if the Russians were beaten on the sea they would certainly triumph on land; that Russia had a big gold-reserve fund, and that she would surely pay the interest on her debt. Furthermore, the great French financial houses did all they could to bolster up Russian bonds. But the stock-brokers were frightened at the large holdings in Russians of some of their clients. So they forced settlements, and the crash of February 20th was the result. From that moment there was no more dealing in Paris with Russian securities. If it is possible to buy Russian bonds, it is impossible to sell them. The stock-broker is master of his own credit, and he now refuses to accept Russian bonds unless the bonds themselves are actually placed in his hands. He even refuses to agree to sell a large sum, declaring that he will be unable to find a buyer.

The transactions of the Paris Stock Exchange are monopolized by seventy stock-brokers, through whose hands must pass all operations in State securities. They decided to suspend all business in future sales in order to keep up to the highest point the prices of Russian bonds. This course, it was said at the time, was recommended by the French Minister of Finance himself, M. Rouvier. But this is a most dangerous proceeding. Bears to-day are bulls to-morrow; and if they do not find buyers, a crash is inevitable. The Paris Stock Exchange is at present in a condition when such a thing may happen at any moment.

When, last spring, the latest Russian loan, for 300 millions of rubles, was negotiated at Paris, M. Rouvier feared lest small bondholders should sell their French securities and those Russian securities which they already possessed, in order to buy the new five-per-cents. So he required that the denomination of the bonds should be 500 francs, which would prevent small purses from buying them, and he also cut down the loan to one-half the original amount,—150 stead of 300 million rubles. But this last restriction was overridden, and the banks accepted subscriptions covering the loan several times over. These same bankers, however, were very careful to keep none of the bonds for themselves, and generously ceded all to their clients. They even

went further in their generosity and some of the more important financial establishments shared their commission with these clients in order that the latter might "get all the possible benefit" of the transaction. Clerks, too, in the branch banks of these large houses got a small commission for every bond they succeeded in working off. A small depositor going to one of these banks at this time with a fifty-franc bill in his hand was sure to be importuned by one of these eager employees to invest in the loan. "Buy Russians" was the advice heard on every hand. The reader may judge from this how the next Russian loan will fare when the inevitable moment comes to place it in France.

Nobody knows exactly how Russian finances are administered, as they are not in any way under the control of a representative assembly. The Russian Ministers and officials may present the budget in any way they like. Nobody can tell, consequently, how large or small a part of this latest loan ever actually got into the Russian treasury. The "*Eclair*" newspaper of Paris has disclosed that 30 millions out of the 800 millions of francs were eaten up in commissions. It was first announced that the rate of emission would be 98 francs, which at 5 per cent., would mean an investment at 5.10 per cent. But according to a statement which appeared in the London "*Times*" of September 15th last, the transaction really cost the Russian Government 6 per cent.

Notwithstanding all the efforts made to prevent it, some of the French holders of Russian bonds sold those which they already had, in order to buy the new ones which were more advantageous. The French bondholder argued in this wise: "This is an investment at more than 5 per cent. That is all I see in it. As Russia is sure to come out ahead on land, she can wait for the day of victory. In the mean time, I will enjoy my larger income. That is all that concerns me."

Consequently, when the news came of Russian defeats on the Yalu and at Liao-Yang, Frenchmen who looked at matters in that way—and their number is legion—were suddenly awakened from a pleasant dream. But thereupon the Russophile newspapers in Paris, more or less inspired by the bankers who placed the loan, began to say and repeat: "The Russians may be beaten at first, but they will win in the end. The finances of Japan will be exhausted before those of Russia."

It is quite true that the credit of Japan is not equal, even now,

after all that has happened, to that of Russia. The small loan which the former asked for was issued at a rate much higher than that of Russia, and it had to be guaranteed by the earnings of the Japanese customs. But Japan has one great superiority over Russia,—she has but four foreign loans. The sum set aside for the payment of the Japanese debt for the year ending March 31, 1904, was 42,402,000 yen, the yen being about 50 cents. The sum set aside for the payment of the Russian debt was estimated for 1904 at 289,299,000 rubles for a capital of 6,629 millions of rubles. But this figure is only approximative, as the various Russian loans are not all given in rubles.

Another question which is sure to be asked by the foreign money-lender when Russia comes forward for a fresh loan is this: "What is the war costing the two nations?" And the answer to this question ought not to help Russia to find buyers of her future bonds. For these inquisitive inquirers will learn that the army and navy of Japan, which have shown what they can do, cost less than the army and navy of any other country. The Japanese army requires less than 20 millions of dollars per year, while that of Russia requires 200 millions. As regards the navy, the figures are 15 millions for Japan and more than 60 millions for Russia. It will also be asked how this money was spent; and then this question will be put by inquisitive investors: "Are all the resources of Russia which are now used for war purposes being so employed as to obtain a maximum result at a minimum cost?" The London "Times," on the date already given, ventures to doubt this, "when the authorities of high standing charge their government with the cost of the best Welsh steam coal and ship inferior Japanese, making thousands on the transaction."

The cost of the war between Japan and China is known. The former country spent \$144,000 per day. It is estimated that she is now spending \$250,000 per day or, in round numbers, \$7,500,000 per month. During the Chinese war, Japan's total expense, from 1894 to November, 1896, was 200,479,508 yen, of which sum 35,955,000 went to the navy. Japan met this demand on her finances by public loans amounting to 116,804,000 yen, while the Chinese indemnity furnished 78,957,000. The monthly maximum of war expenses for Japan never rose to 20,000,000 yen, and, according to the "Times," this average was not exceeded during the first six months of the present conflict.

Now how is Russia faring from this same point of view? She has practically lost her Port Arthur squadron. An authority, M. Raphael Georges Lévy, who is very friendly to Russia, estimates the monthly cost of the war for Russia at between 30 and 40 millions of dollars. This is probably a fair estimate, for England spent about 24 millions of dollars per month during the Transvaal struggle.

These facts must be beginning to be known to the general public. They are certainly well known in all financial circles, and the knowledge of them cannot improve the borrowing possibilities of Russia. And the longer the war lasts, and the more she will need money, the harder it will be for her to find any money anywhere.

III.

At the beginning of September it was rumored that Russia was trying to find money at Berlin. The German Government took a deep interest in the effort, and the Kaiser could not be too zealous in encouraging Russia to keep up the war. He has every reason for wishing Russia to exhaust her arsenals, soldiers and funds. The weakness of Russia is one of the coefficients of the strength of Germany. To render it possible for her to continue the war by increasing her debt, is one of the services most advantageous to Germany that the latter can offer the former. However, towards the middle of September it was announced that the Berlin bankers did not see their way to accommodating Russia, and so the Government of the Czar was forced to again turn to France.

In spite of the efforts to attenuate the result of the battle of Liao-Yang, this event has not strengthened the credit of Russia either in France or elsewhere. Without doubt, Russia can still make a loan at Paris, but its success will depend on two things,—the amount of the proposed loan and the interest rate. Now, if this rate is too high, it will bring about the crash of which mention was made a moment ago. The present holders of Russian State Rente bonds would sell them in order to buy the new ones. In this way another loan could be floated. But could she float two? That is the question. For a loan now to carry on the war will have to be followed by another to meet the final expenses and the indemnity which Japan is sure to exact and to exact quite justly. Or one very large loan might be offered which

would meet both of these needs. But this is the view that the capitalist will take of the matter: "If the new loan," he will argue, "assures Russia the victory, well and good. But if it simply aids in prolonging the struggle, it will also simply weaken Russia still further. The conflict cannot last indefinitely. But the longer it goes on, the greater will be the exigencies of Japan. The Japanese will demand a war indemnity; and then Russia will have to borrow again, and at what rate?" These prudent considerations will not render easier the placing of the future loan.

But the gravest thing about Russia's financial position, from the borrowing point of view, is the fact that she can find but one lender, who has already let her have too much. I, of course, mean France. So, if Paris fails, the St. Petersburg government cannot look elsewhere for outside help. Then the Czar must sink or swim with his own people. But money must be found somewhere and somehow to pay the interest on the immense foreign debt. Gold must be had, and if the French will not loosen their purse-strings, being tired of the thing, then the only recourse left Russia is to begin to use her gold reserve which was accumulated by M. Wischnegradsky, formerly Minister of Finance, and M. de Witte, in order to make it possible to return to specie payment. According to Russian data, there was circulating in Russia, at the end of 1903, 787 millions of gold rubles, and 1,058 other millions were in the vaults of the Bank and the Treasury—a grand total of 920 millions of dollars. On August 1, of this year, the funds in the Bank and the gold in the Treasury were valued at 1,220 millions of rubles.

In two articles published in the important Berlin periodical, the "*Deutsche Rundschau*," Herr Tankscher concludes that Russia's financial condition is very healthy. But she can keep intact this reserve fund only by borrowing in foreign parts, and, if the day comes when she has to touch this fund, on that day Russian credit will receive a severe blow. It was to prevent this that Russia offered the 800 million francs loan, already mentioned.

The wealth of a country, however, is not based alone on its stock of money. Its industrial and agricultural capacity counts for something. But the present agricultural outlook in Russia is not encouraging. In August, one of the leading Russian dailies, the "*Novoye Vremya*," stated that in several of the northern provinces lack of forage was causing a large emigration towards

the richer provinces of the south. Within the memory of man the movement had never been so marked. In the Province of Novgorod, the ruined farmers were selling their cattle, in order to keep from starving. But the south itself has only fair crops this year.

M. Bunge, formerly Russian Minister of Finance, has admitted that the peasants cannot pay all their taxes. At the recent birth of the heir to the throne, the Czar issued an edict adjourning still further the payment of these back taxes. We are told that the peasants' land is distinguished from that of the nobles by the quantity and appearance of the harvest. The latter practise agriculture with machines and on approved modern methods, while the former plough, sow and reap as did their ancestors, paying no attention to the laws of the rotation of crops or any other of the teachings of scientific agriculture. The result is that, if we place the peasant's harvest at 100, the noble's rises to 210.

The situation is scarcely more brilliant if we turn towards the industrial field. M. de Witte was long bent on encouraging manufactures, with two results which he probably did not foresee. He has created revolutionary centres formed of the workmen in the factories, and weak industrial concerns which count on the Government to help them out. Without State aid, they cannot live. The Government pays these houses fifty or sixty per cent. more for articles which would otherwise be bought across the frontier. This is where goes a large part of the money borrowed with so much trouble in foreign countries. So the Russian manufacturer naturally looks upon the present war as a perfect god-send.

But the longer the Russian Government prolongs the war, the more it will ruin the country, and it is not without anxiety that this eventuality is viewed by the French holders of Russian securities. Their faith in the triumph of Russia has been rudely shaken by the falsehoods sent broadcast over the world by the official newsmongers of St. Petersburg. French observers are asking how it happens that the Russian War Office always knows the Japanese losses but never their own. The continuous "orderly retreat" in Manchuria reminds them of what happened during the dark days of 1870-1871, and "the plan of Kuropatkin" resembles very closely that of the famous Trochu. The bluff of

the sailing of the Baltic fleet has caused more than one of my countrymen to say: "Really, the Russians must think us asses!" Credit is a matter of faith. When faith departs, credit goes with it.

I have stated that Russia has no other lender than France. It is true that the Dutch hold some Russian bonds, but the phlegmatic Hollanders would not listen an instant to the idea of taking up a Russian loan. Belgium has already lost more than 100 million dollars in closing out, in 1901, her connection with Russia's industrial enterprises, and she would not risk having her fingers burnt again. Of course, the door of England is shut tight, and I doubt if that of New York is likely to open, notwithstanding the Malachite service which the Czar has so seductively presented to the Stock Exchange. The cold shoulder given in Berlin, as just described, removes Germany from the list. France, then, alone remains, as I have already said. But we have seen that even in France the matter is beset with difficulties. The situation, then, may be summed up in these words: Within a brief period, Russia will be forced to draw on its gold reserve and go back to fiat money.

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